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Public Employees Pension Plan

2013-2014
Annual Report

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This annual report is available in electronic format at **www.peba.gov.sk.ca**

Letters of transmittal

Ken Krawetz
Minister of Finance

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Public Employees Pension Board for the fiscal year ending March 31, 2014.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Public Employees Pension Board, I have the honour of submitting the Annual Report of the Public Employees Pension Board for the fiscal year ending March 31, 2014.

Nola Joorisity
Chair

Chair's comments

Nola Joorisity
Chair

"The Board maintains their efforts in building choice, diversification and options for members."

On behalf of the members of the Public Employees Pension Board (the Board), I am pleased to present the 2013-2014 Annual Report of the Public Employees Pension Plan (PEPP). This report details critical strategic plan activities and accomplishments, and pertinent Plan financial and investment information.

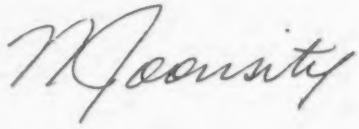
In the ever changing climate on pensions we have seen firsthand where other defined contribution pension plans limit their offerings, drastically increase fees and also reduce services. Despite what's taking place around us, PEPP continues to have a strong plan and we focus on new value added components.

As part of that vision, PEPP continued to implement the GET MORE campaign throughout the 2013-2014 year. We maintain our efforts to build choice, diversification and options for members and always look at improved returns and reduced risks. The Board remains committed to addressing members' changing needs and we will continue our assessment of how to best provide fund investment options for members into 2014.

As part of the Board's strategic initiatives, we added and updated some of our online resources and are enhancing service by expanding communication capabilities to our members. After another well focused year, we are positioned to expand our interaction with and service support to members.

Upon being appointed as the Board Chair on October 1, 2013, I have been excited to take on this challenging role and deliver on our strategic initiatives. In stepping into this position, I would be remiss if I didn't acknowledge our outgoing Chair. Since March 2005, Kenneth R. Horsman served as a valuable resource to PEPP through his commitment and leadership and on behalf of the Board, I want to thank him for his dedicated service.

I am privileged to chair the Public Employees Pension Board and to present the 2013-2014 Annual Report.

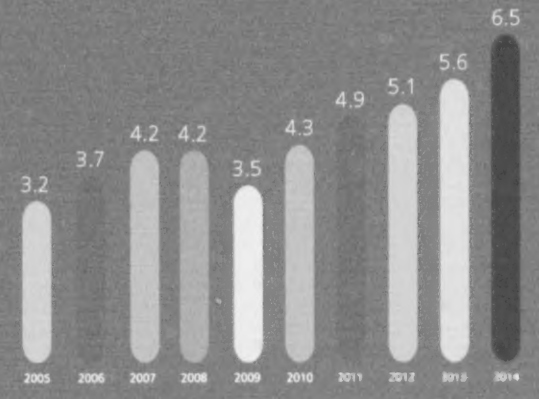


Nola Joorisity
Chair

Financial highlights

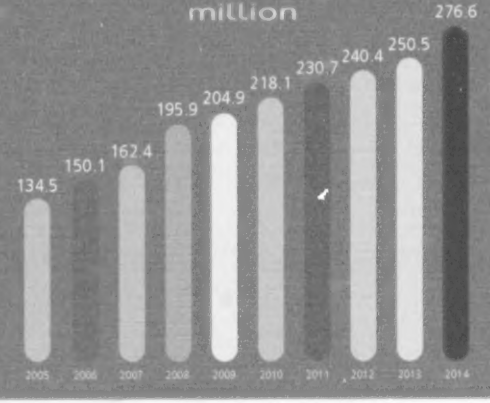
Total Assets of the Plan

$6.5 billion



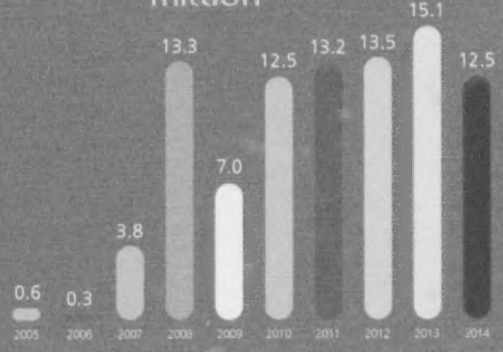
Total Contributions to the Plan

$276.6 million



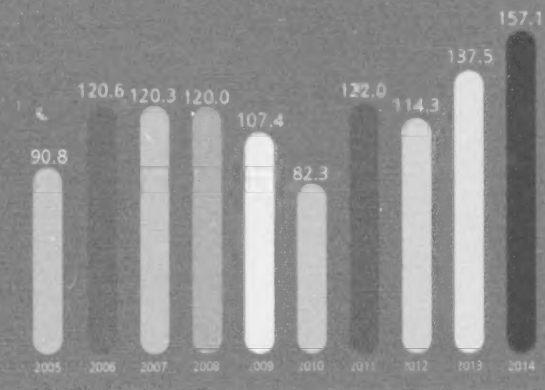
Total Transfers-in to the Plan

$12.5 million



Total Transfers-out of the Plan

$157.1 million



Investment highlights

Assets by Investment Option ($ millions) (as at March 31, 2014)

4,693.8	Balanced Fund	203.5	Conservative Fund
562.0	PEPP Steps Fund	183.2	Moderate Fund
340.4	Short-term Bond Fund	193.1	Accelerated Growth Fund
247.6	Growth Fund		

PEPP Fees and Rates of Return[1] (as at March 31, 2014)

			(%)		
Fund	Benchmark Rate of Return	Gross Rate of Return	Fees PEBA & Board[2]	Fees Investments[3]	Net Rate of Return
Accelerated Growth	19.9	20.3	0.10	0.45	19.8
Growth	16.5	17.7	0.10	0.37	17.2
Balanced	14.4	15.3	0.10	0.30	14.9
Moderate	11.3	11.8	0.10	0.25	11.5
Conservative	7.1	7.2	0.10	0.14	7.0
Short-term Bond	1.9	2.2	0.10	0.10	2.0

[1] The rate of return and fee data for the PEPP Steps Fund varies with each step.
[2] Of the 0.10% fees shown, the Board accounts for less than 0.01%.
[3] Investment fees include fees for investment managers, consulting and custody

Table 1.0

Equity markets around the world posted positive gains. Equity performance in the US and Japan were particularly strong followed by European and Canadian indices while emerging market equities were notable laggards. Bond returns were very modest. Credit outperformed sovereign issues as spreads narrowed, and shorter duration bonds outperformed universe bonds. While all asset allocation funds posted positive returns on the year, these circumstances led to the more aggressively structured funds outperforming the more conservatively designed funds.

PLAN ASSETS

$6.5 billion

PLAN MEMBERS

54.0 thousand

NUMBER OF PARTICIPATING EMPLOYERS

79 employers

PLAN profile

PEPP was established and is governed by *The Public Employees Pension Plan Act*. It is registered as a pension plan pursuant to *The Pension Benefits Act, 1992* and the *Income Tax Act* (Canada).

The Public Employees Pension Plan (PEPP) has 79 participating employers and 54,037 members at March 31, 2014. Participating employers include the Government of Saskatchewan, Crown Corporations, agencies, boards and other public institutions.

PEPP is a defined contribution (DC) pension plan. A member's contributions and his or her employers' contributions, plus any return on investment, are used to provide a member with income based upon the account balance he or she has built at retirement.

Enrolment in the Plan is mandatory for employees who hold a permanent position with an employer participating in the Plan. Unless otherwise specified in an agreement, non-permanent employees may choose to join the Plan at any time.

Member and employer contributions are calculated as a percentage of the member's total gross regular earnings. Unless otherwise specified in an agreement, the contribution percentage is five per cent. Member contributions are made by payroll deduction.

Contributions to PEPP are tax deductible up to a maximum set by the *Income Tax Act* (Canada). Members do not pay taxes on contributions or the accumulated investment income until they withdraw an amount from the Plan.

Contributions are forwarded to the Plan and are used to purchase units in the PEPP investment option of the member's choice.

Units are valued daily following market close. Once a new unit value is declared, member accounts are valued using the new unit value. Return on investment is reflected in the changing unit value. The amount the member receives at payout or transfer is calculated using the unit value in effect at the date of payment.

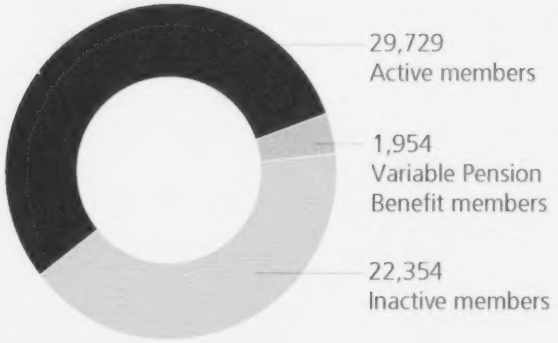
Members may retire and begin to receive retirement income at age 50 or older.

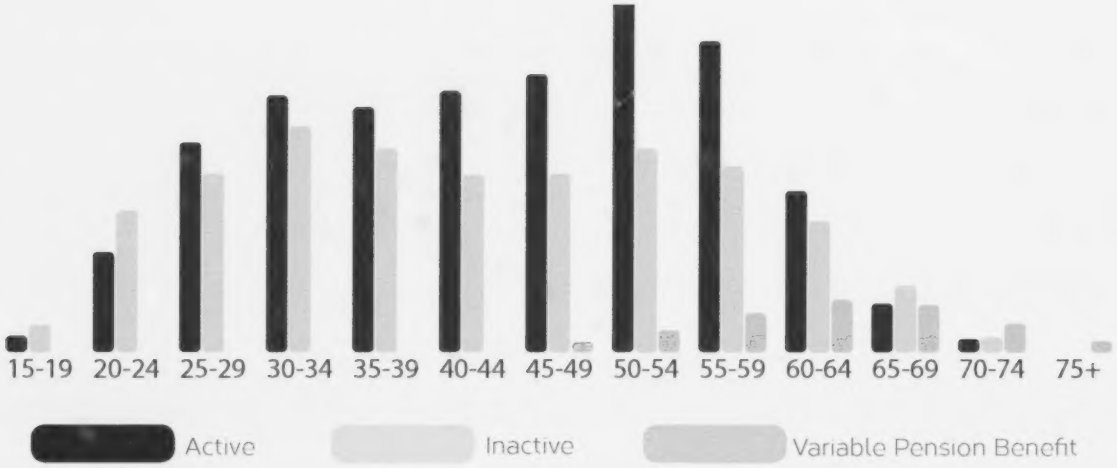
Members may defer purchasing a retirement income option after retirement. *The Income Tax Act* (Canada) states that a pension must begin by the end of the calendar year a member turns age 71.

Membership Activity	
Membership at March 31, 2013	**52,583**
Add:	
Enrolment during the year	3,446
Variable Pension Benefit (VPB) enrolment	527
Less:	
Exiting members	2,519
Membership at March 31, 2014	**54,037**

Table 11

Membership Distribution by Age Band as at March 31, 2014





Plan members registered in PEPP access

18.7
thousand

Average age of active plan members

44.8
years

Inter-fund transfers processed by plan members online

2.3
thousand

To provide lifetime retirement benefits to members.

To provide members with a means of saving for retirement, a flexible way to receive retirement income and pension services.

Service, Delivery, Design and Communications

Plan Governance

Accountability

Public employees pension board

The Board consists of nine members; four are appointed on behalf of participating employers, four on behalf of employees. The Board conducts an external recruitment process to choose a Chair who is appointed for a three-year term.

Public Employees Pension Board Members at March 31, 2014

Name	Position	Appointing Body
Nola Joorisity	Chair	Public Employees Pension Board
Dennis Terry	Vice-Chair	SaskEnergy, SaskPower, SaskTel
Jack Duvall	Member	Saskatchewan Government and General Employees' Union
Sean Engemoen	Member	Saskatchewan Institute of Applied Science and Technology Saskatchewan Liquor and Gaming Authority
Derrick Goulet	Member	International Brotherhood of Electrical Workers Union Local 2067
Jacalyn Luterbach	Member	Canadian Union of Public Employees Local 600
Kathy Martin	Member	Communications, Energy and Paperworkers Union of Canada
Jocelyn Robinson	Member	Public Service Commission
Cathy Uhersky	Member	Saskatchewan Crop Insurance Corporation, Workers' Compensation Board, Saskatchewan Cancer Foundation

Table 12

Board Education

The Board has an education program in place for Board members. The purpose of the program is to ensure the Board members possess a sound knowledge and understanding of pension, investment, and governance related issues. The Board budgets $5,000 per year for each Board member for registration fees. Expenses related to travel and accommodation are reimbursed at rates established by the Public Service Commission.

Upon appointment to the Board, new members receive an orientation provided by the Public Employees Benefits Agency's (PEBA's) Executive Management. New members are also assigned a mentor during their orientation period. Mentors are drawn from experienced Board members who are able to answer questions and offer guidance to the new member as required.

Board members are required to undertake a formal education program. The program provides a list of courses and seminars that deliver specific investment and governance-related information relevant to Board members.

- Within one year of appointment, members attend the Queen's Governance Program for Executives and Board Members in the Government and Not-for-Profit Sectors, facilitated by the Queen's School of Business, Queen's University.
- Within one year of appointment, members complete a course on basic investment principles facilitated by PEBA.
- Within two years of appointment, members complete the Board Effectiveness Program for Pension and Other Long-Horizon Investment Institutions, presented by the Internationa. Centre for Pension Management at the Rotman School of Management, University of Toronto.

Board members who have completed the formal education program are also required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization. A Board member who is actively pursuing the formal education program is exempt from the obligations found in the ongoing development for all members. However, all members are strongly encouraged to attend an education event.

Conferences and other events attended by Board members as part of their ongoing education provide the Board with information on the current governance, investment and legal environment affecting pension plans. They also provide opportunities for Board members to meet with pension experts and pension trustees from other pension plans to discuss common issues.

Table 1.3 lists the education events attended by Board members to March 31, 2014.

Meeting Attendance

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members. The Chair is remunerated with a retainer set by the Board.

The Board met 10 times in the 2013-2014 fiscal year. Table 14 shows the number of meetings each Board member attended.

Name	Number of Meetings Attended
Nola Joorisity [2]	5
Dennis Terry	10
Jack Duvall	9
Sean Engemoen	9
Derrick Goulet	8
Kenneth Horsman [1]	5
Jacalyn Luterbach	9
Kathy Martin	7
Jocelyn Robinson	9
Cathy Uhersky	9

Table 13

[1] Kenneth Horsman's appointment ended on September 30 2013.
[2] Nola Joorisity was appointed on October 1 2013.

Both Kenneth Horsman and Nola Joorisity attended 100 per cent of the meetings they were eligible to attend during their appointment.

Board Members: (*left to right*)
Jocelyn Robinson, Jack Duvall, Jacalyn Luterbach, Dennis Terry, Kenneth R. Horsman, Sean Engemoen, Kathy Martin, Derrick Goulet
Missing: Cathy Uhersky, Nola Joorisity

Seminars, Courses and Other Events Attended by Board Members in 2013–2014

Name	Education Events Attended	Total Expenses
Jack Duvall	• Queens Governance Program	$5,256
Sean Engemoen	• None attended	$0
Derrick Goulet	• CPBI Regional Conference[1]	$1,316
Nola Joorisity	• None attended[2]	$0
Jacalyn Luterbach	• Investment Basics • Rotman Board Effectiveness Program	$9,238
Kathy Martin	• Queens Governance Program	$4,900
Jocelyn Robinson	• Queens Governance Program	$4,988
Dennis Terry	• CPBI Presentation	$33
Cathy Uhersky	• CPBI Presentations (3)	$0
	Total Expenditures	**$25,731**

Table 14

[1] Provided by the Canadian Pension and Benefits Institute.

[2] In November 2013, in consideration of her prior board experience, the Board exempted Ms. Joorisity from completing the first element of the Board's orientation program.

INVESTMENTS

One could not have asked for much more than what the 2013-14 plan year delivered. Most global equity markets saw great returns, although bond and money market returns lagged with returns barely in positive territory. Global equity markets were generally up well over 10 per cent and a falling Canadian Dollar made these returns look even better to Canadian investors with unhedged exposures.

Markets were particularly strong in late 2013, while flattening somewhat in the first months of 2014. Generally, markets shrugged off some of the headwinds and responded to positive signals. Overall, 2013-14 returns were stronger in almost every sector and region than in 2012-13 and almost all saw double-digit positive returns. One notable exception was the Latin American emerging markets which suffered a small, negative year. However, most emerging markets lagged behind the developed markets.

In the United States, early concerns about the removal or tapering of the economic stimulus eased as evidence of a stronger economy emerged. While the message from Janet Yellen, the new chair of the U.S. Federal Reserve, indicated that the U.S. economy was still fragile and needed the support of lower interest rates, the case for continued stimulus was weakening. Damage from the government shutdown in October seemed to evaporate as budget and debt ceiling issues were resolved – allowing the U.S. economy to grow as Washington's gridlock eased. A colder winter did dampen performance in some sectors of the economy, including housing, manufacturing and consumer goods in the early part of 2014.

Japan was one of the headlines in 2013-14 as their economy turned a corner of sorts. Japan's Nikkei 225 scored one of the largest returns in the world last year as Japan's economic strategy, coined "Abenomics", gained momentum and earned investor confidence. Late in the year the government indicated that Japan would continue to rely on nuclear power as a source of energy, although this dependency would be reduced. This news lifted sentiment in the sector as investors anticipate the restarting of some long-idled Japanese reactors sometime this year.

Markets in Canada were quite strong in 2013-14, but failed to keep pace with equity markets elsewhere in the world because of weak performance from gold mining stocks. While the gold market enjoyed some relief in the first quarter of 2014, led by rising geo-political tensions in Crimea and the Ukraine, 2013 was a tough year for the gold mining complex. Gold prices fell significantly in the second quarter of 2013 as investors reacted to the prospect of a dialing back of the quantitative easing program in the US. Banking, insurance, and energy stocks, however, were top contributors to the performance of the S&P/TSX composite. The banks reported consistently solid financial results driven by revenue growth, tighter expense control, and stronger credit provisioning trends. Integrated oil and gas companies such as Suncor and Imperial Oil outperformed along with oil and gas production and exploration heavyweight Canadian Natural Resources (CNQ). Shares of CNQ advanced notably in the final quarter of the plan year as the company reported better than expected results with significant growth in quarterly earnings. Likewise Imperial Oil shares finished strong after the company reported impressive earnings results on the strength of record refining profits.

The Eurozone also showed a healthy return in 2013-14, as concerns over sovereign debt and deleveraging gave way to increased confidence that the worst of the financial crisis may be over. Emerging market economies that returned strong single digit returns did not keep pace in a very strong year throughout the globe.

Late in the fiscal year, the Russian occupation of Crimea and escalating tensions in Ukraine provided headwinds to equity markets but mostly within the region as many investors preferred to reduce exposures to the region. This headwind continues into 2014-15 with impacts that cannot be known until the situation unfolds further.

Overview

The Plan offers members the choice of six asset allocation funds:

- Accelerated Growth Fund
- Growth Fund
- Balanced Fund
- Moderate Fund
- Conservative Fund
- PEPP Steps Fund

Members may invest in the Short-term Bond Fund, either in addition to or instead of, investing in one of the six asset allocation funds.

Asset allocation funds invest in a mix of asset classes, including equities (Canadian and foreign), real estate, fixed income and cash equivalents. The mix depends on the fund: more conservative funds are weighted more heavily toward fixed-income investments, where more aggressive funds are weighted more heavily toward equities. The Short-term Bond Fund is invested solely in fixed income investments.

Equities offer the greatest potential return, but are exposed to a high level of market volatility, meaning they are susceptible to losses over the short term. As such, equities are best suited for long-term investors who are able to ride out short-term volatility in return for long-term growth potential.

Fixed-income investments, such as bonds and cash equivalents, are lower-volatility investments, meaning they are much better suited to capital preservation. For this reason, members with less tolerance for short-term volatility may prefer funds with a greater percentage of fixed income.

Members are encouraged to make an investment choice that fits their risk tolerance and investment profile. PEPP's seven investment options offer members a range from the Accelerated Growth Fund, an equity-based fund, to the Conservative Fund to the Short-term Bond Fund, invested solely in fixed income investments.

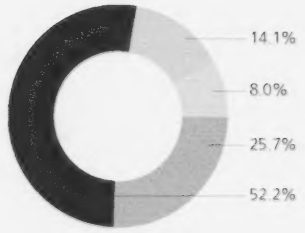
The PEPP Steps Fund, the default investment fund for the Plan, is an asset allocation fund that automatically moves members to more conservative investments over time. Equity holdings decrease and bond holdings increase by increments of approximately five per cent for each of the 12 steps.

Investment Options*

Accelerated Growth Fund

The Accelerated Growth Fund offers the highest risk and highest potential return. The goal of this fund is to provide capital growth over the long term. It invests primarily in equities. Foreign currency exposure for this fund is 26.1 per cent (foreign exposure of 52.2 per cent, less hedged exposure of 26.1 per cent).

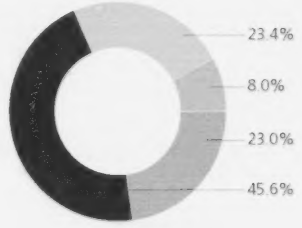
	20.3%	Annual Rate of Return
LESS	0.55%	Fund Fees
=	**19.8%**	Net Rate of Return



Growth Fund

The Growth Fund is an aggressive fund, offering relatively high risk and relatively high potential return. Its goal is to provide capital growth over the long term by investing largely in equities. Foreign currency exposure for this fund is 22.8 per cent (foreign exposure of 45.6 per cent, less hedged exposure of 22.8 per cent).

	17.7%	Annual Rate of Return
LESS	0.47%	Fund Fees
=	**17.2%**	Net Rate of Return



Fixed Income | Real Estate | Canadian Equity | Foreign Equity

* The pie charts for all of the investment options list the actual asset mix for each fund as at March 31, 2014.

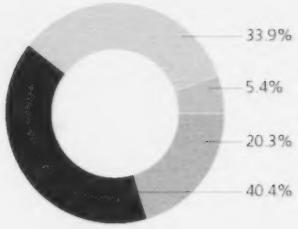
Balanced Fund

The Balanced Fund offers relatively balanced potential risk and return. Its goal is to provide long-term capital growth. The Balanced Fund provides a target weight of 65 per cent for equities and real estate. Foreign currency exposure for this fund is 20.2 per cent (foreign exposure of 40.4 per cent, less hedged exposure of 20.2 per cent).

15.3% Annual Rate of Return

LESS 0.40% Fund Fees

= **14.9%** Net Rate of Return



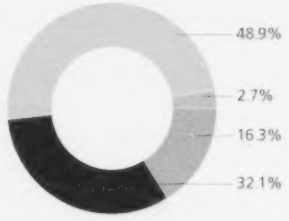
Moderate Fund

The Moderate Fund is designated to provide a balance of security and long-term growth by balancing the risk and potential returns of the major asset classes. It invests almost equally in fixed income and equities with a small allocation to real estate. Foreign currency exposure for this fund is 16.0 per cent (foreign exposure of 32.0 per cent, less hedged exposure of 16.0 per cent).

11.8% Annual Rate of Return

LESS 0.35% Fund Fees

= **11.5%** Net Rate of Return



Fixed Income Real Estate Canadian Equity Foreign Equity

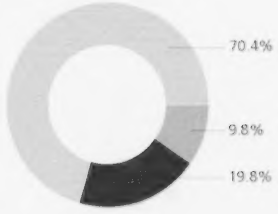
Conservative Fund

The Conservative Fund is designed to provide returns with little fluctuation. By focusing mainly on fixed income investments, it offers lower risk and lower potential for return than other PEPP asset allocation funds. Foreign currency exposure for this fund is 9.9 per cent (foreign exposure of 19.8 per cent, less hedged exposure of 9.9 per cent).

7.2% Annual Rate of Return

LESS 0.24% Fund Fees

= 7.0% Net Rate of Return



Short-term Bond Fund

The Short-term Bond Fund is the most conservative investment choice within PEPP and offers the lowest potential risks and returns. Because its goal is to preserve capital, it invests strictly in bonds with a maturity of five years or less. There is no foreign currency exposure for this fund.

2.2% Annual Rate of Return

LESS 0.20% Fund Fees

= 2.0% Net Rate of Return

Fixed Income Real Estate Canadian Equity Foreign Equity

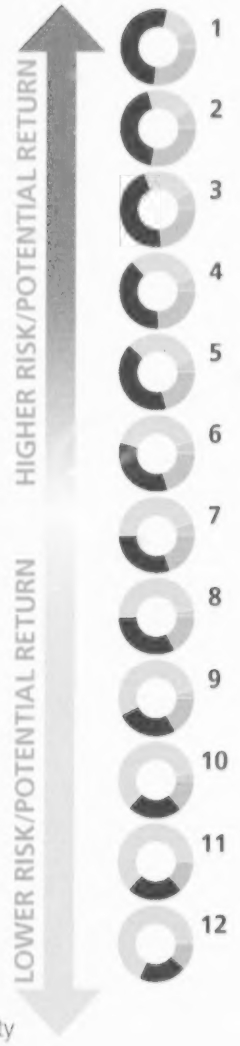
PEPP Steps Fund

The PEPP Steps Fund is the default investment fund for the Plan. It is made up of a diversified investment portfolio, which automatically moves members to more conservative investments in five-year intervals. Equity holdings decrease and bond holdings increase by increments of about five per cent for each step. Because of its unique structure, the PEPP Steps Fund does not have a single rate of return or fee level. Fees range from 0.55% for PEPP Step 1 to 0.24% for PEPP Step 12.

PEPP Fees and Rates of Return[1] (as at March 31, 2014)

	(%)		
Fund	Gross Rate of Return	Fees	Net Rate of Return
PEPP Step 1	20.3	0.55	19.8
PEPP Step 2	18.9	0.50	18.4
PEPP Step 3	17.7	0.47	17.2
PEPP Step 4	16.6	0.44	16.2
PEPP Step 5	15.3	0.40	14.9
PEPP Step 6	14.1	0.39	13.7
PEPP Step 7	12.8	0.36	12.4
PEPP Step 8	11.8	0.35	11.5
PEPP Step 9	10.6	0.32	10.3
PEPP Step 10	9.5	0.29	9.2
PEPP Step 11	8.1	0.25	7.9
PEPP Step 12	7.2	0.24	7.0

Table 15



Investment Managers

Within each asset class, one or more investment managers are used for each investment option. The use of different managers allows for further diversification of the investments within each investment option. The use of different investment managers allows the Plan to employ different investment styles that can focus on different regions or sectors for investment, reducing the risk that any one region, sector or style may suffer during any economic cycle or event.

Changes to Investment Managers In 2013-2014

The Board hired a currency hedging manager, Pareto Investment Management Limited (Pareto) in 2013-14 to manage a currency hedging mandate. Pareto passively hedges 50 per cent of developed market, foreign currency exposures of the Plan. The Board terminated the currency hedging previously employed by two of the Plan's foreign equity managers, BlackRock Asset Management Canada Limited (BlackRock), and Tweedy, Browne Allocation Fund LLC, although both firms continue to manage foreign equities on an unhedged basis.

Public Employees Pension Plan
Plan Member

Investment Manager Mandates (as at March 31, 2014)

Investment Manager	Mandate	Description
Beutel, Goodman & Company Ltd. (Beutel Goodman)	• Canadian Equities	Actively manages Canadian equities
GE Asset Management Canada Company (GEAM)	• Canadian Equities	Actively manages Canadian equities
GlobeFlex Capital, L.P. (GlobeFlex)	• Canadian Equities	Actively manages small cap Canadian equities
J. Zechner Associates Inc. (Zechner)	• Canadian Equities	Actively manages small cap Canadian equities
QV Investors Inc. (QV)	• Canadian Equities	Actively manages small and mid cap Canadian equities
Greystone Managed Investments Inc. (Greystone)	• Real Estate • Fixed Income • Short-term Bonds	Actively manages real estate Actively manages fixed income Actively manages the Short-term Bond Fund
BlackRock Asset Management Canada Limited (BlackRock)	• U.S. Equities	Actively manages small and mid cap U.S. equities
TD Asset Management Inc. (TDAM)	• Canadian Equities • U.S. Equities • Fixed Income • Canadian Money Market	Passively manages Canadian equities Passively manages U.S. equities Passively manages fixed income Actively manages Canadian money market
Franklin Templeton Institutional, LLC (Franklin)	• Global Equities	Actively manages global equities
Investec Asset Management Ltd. (Investec)	• Global Equities	Actively manages global equities
Schroder Investment Management North America Inc. (Schroder)	• Global Equities	Actively manages global equities
Tweedy, Browne Company LLC (Tweedy)	• Non-North American Equities	Actively manages non-North American equities
Pareto Investment Management Limited	• Hedge 50 per cent of foreign currency exposure	Passively manages currency hedging

Table 1.6

Investment Performance

The Board retains 12 investment managers to invest the assets of the Plan. Those managers employing an "active" investment management style are given the objective of out-performing the market index or benchmark selected for their mandate. Managers employing a "passive" investment management style are given the objective of equalling the market index or benchmark selected for their mandate.

Canadian Equities

	Net Rate of Return	
	1-Year Return	4-Year Return
Canadian Equity Manager		
TDAM (passive manager)	16.0	7.5
Beutel (active manager)	23.4	n/a
GEAM (active manager)	18.1	n/a
Benchmark (S&P/TSX Capped Composite Index)	16.0	7.5
Canadian SMID Cap Equity Manager		
QV (active manager)	30.1	n/a
Benchmark (S&P/TSX Completion Index)	16.6	9.6
Canadian Small Cap Equity Manager		
GlobeFlex (active manager)	31.0	11.9
Zechner (active manager)	23.6	n/a
Benchmark (S&P/TSX Small Cap Index*)	15.4	7.1

Table 1.7

* Prior to January 2013, benchmark was the BMO Small Cap Index.

US Equities

	Net Rate of Return	
	1-Year Return	4-Year Return
U.S. Equity Manager		
TDAM (passive manager)	32.3	17.3
Benchmark (S&P 500 Index - SCdn)	32.3	17.3
U.S. Small/Mid Cap Equity Manager		
BlackRock (active manager)	36.0	15.3
Benchmark (S&P US Small/Mid Cap Index)	34.5	19.0

Table 18

Non-North American/ Global Equities

	Net Rate of Return	
	1-Year Return	4-Year Return
Non-North American Equity Managers		
Tweedy (active manager)	22.1	12.9
Benchmark (MSCI EAFE Index)	24.4	9.5
Global Equity Managers		
Schroder (active manager)	n/a	n/a
Investec (active manager)	n/a	n/a
Benchmark (MSCI AC World Index)	27.3	12.8
Franklin (active manager)	n/a	n/a
Benchmark (MSCI World Index)	30.1	14.0

Table 19

Real Estate

	Net Rate of Return	
	1-Year Return	4-Year Return
Real Estate Manager		
Greystone (active manager)	10.0	11.4
Benchmark (Investment Property Databank)	10.6	12.9

Table 110

Fixed Income

	Net Rate of Return	
	1-Year Return	4-Year Return
Canadian Bond Managers		
Greystone (active manager)	1.0	5.3
TDAM (passive manager)	0.8	5.0
Benchmark (DEX Universe Bond Index)	0.8	5.0
Short-term Bond Manager		
Greystone (active manager)	2.0	3.3
Benchmark (DEX Short-term Bond Index)	1.9	3.1

Table 111

Cash and Equivalents

	Net Rate of Return	
	1-Year Return	4-Year Return
Money Market Manager		
TDAM (active manager)	1.2	1.2
Benchmark (DEX 91-Day T-Bill Index)	1.0	0.9

Table 112

Notes

During 2009, the Board terminated the U.S. equity mandate managed by Northwater Capital Management Inc. (Northwater). A less liquid portion of this mandate, consisting of a fund of hedge funds, is still held by the Plan and is being redeemed. Subsequent to termination, Northwater sold its fund of hedge funds operations to Crestline Investors Inc.

Due to the recent inception, performance for Boutel, Goodman, GEAM, GV, Zechner, Schroder, Investec, and Franklin is unavailable.

Investment Consulting

The Board retains Mercer (Canada) Limited for investment consulting services that include research and analysis of financial markets, market trends, investment managers, and investment performance, but also global trends in investments and pension plan design. Mercer (Canada) Limited was paid $432,000 in fees for the year ended March 31, 2014.

Investment Custody and Valuation

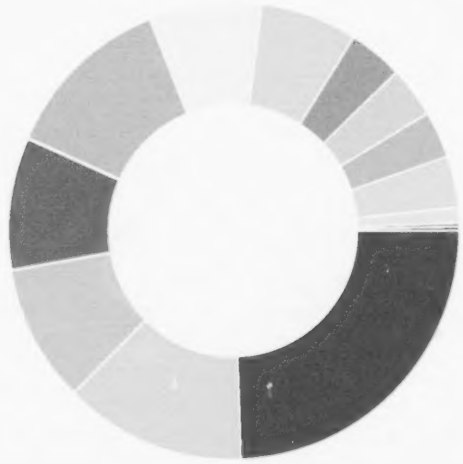
The Board retains RBC Dexia Investor Services Trust as the custodian of the Plan. The custodian is responsible for custody of all financial assets for PEPP, settles all investment transactions and ensures all investment income (dividends and interest) is collected. The custodian also reports all investment transactions and conducts valuation for the Plan. The custodian was paid $492,000 for the year ended March 31, 2014.

Investment Administration

This includes declaring unit values for all investment options, monitoring of investment performance, communicating with external investment managers and the investment consultant, research, compliance monitoring and managing asset mix and cash flows.

Investment Manager Fees ($ thousands) (for the 2013-14 fiscal year)

3,955	Tweedy, Browne Company LLC	643	GE Asset Management Canada Co.
2,111	BlackRock Asset Management Canada Inc.	564	Beutel, Goodman & Company Ltd.
1,584	Schroder Investment Management North America Inc.	527	QV Investors Inc.
1,503	Franklin Templeton Institutional, LLC	501	TD Asset Management Inc.
1,975	Greystone Managed Investments Inc.	186	J Zechner Associates Inc.
1,124	Investec Asset Management Ltd.	50	Pareto Investment Management Ltd.
	GlobeFlex Capital, L.P.	1	Crestline Investors, Inc.



$16,127 million

Total Investment Manager Fees*

PLAN administration

Participating employers include the Government of Saskatchewan, Crown Corporations, agencies, boards and other public institutions.

The Board has delegated the day-to-day administration of the Plan and management of its assets to PEBA. The cost for this is charged to the Fund. PEBA is a branch of the Ministry of Finance. PEBA administers a wide range of pension and benefit plans.

Under contract with the Board, PEBA provides all services required to operate, administer and manage the Plan in a manner consistent with and according to all statutory provisions and regulations that apply to the Plan.

To administer the Plan, PEBA:

- maintains all member and accounting records;
- collects and deposits contributions to the Fund;
- transfers contributions to the custodian of the Fund for investment;
- determines all questions of coverage, eligibility and methods of providing or arranging for the provision of pension benefits;
- calculates and pays all pension benefits;
- communicates with members and participating employers; and
- prepares the annual report.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board. In 2013-2014, the Board paid PEBA $6,690,000 for administrative services.

Administration Service Standards

PEBA reports performance measurement against standards to the Board quarterly. *Table 113* and *Table 114* provide measurement results for the 2013-2014 year.

Public Employees Pension Plan
Plan Member

PEBA Service Standards April 1, 2013 to March 31, 2014

Task	Completed	Met or Exceeded Standard		Standard (Days)*	Statutory Requirement (Days)**
		Number	%		
Statement on Termination of Membership (option letter)	3,728	3,565	95.6	4	90
Payment of Termination Benefits	1,494	1,393	93.2	4	-
Statement on Retirement (option letter)	516	487	94.4	4	90
Retirement Payments	1,980	1,906	96.3	4	-
Statement on Death (option letter)	48	47	97.9	5	90
Payment of Death Benefits	72	69	95.8	4	-
Pension Estimates	1,169	1,105	94.5	4	-
Marriage Breakdown Estimates	94	94	100.0	5	-
Portability Transfer Values	57	51	89.5	5	-
Written Correspondence***	5,012	5,012	100.0	5	-
Total	**14,170**	**13,729**	**96.9**		

Table 1.13

* Standard is set within the contract between the Board and PEBA.
** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *Regulation, 1993*.
*** The majority of written correspondence is received by PEPP Inquiry email. The PEPP Inquiry email receipts and responses are monitored daily by the Assistant Manager.

PEBA Periodic Requirements April 1, 2013 to March 31, 2014

Task	Completed	Met or Exceeded Standard		Standard (Days)*	Statutory Requirement (Days)**
		Number	%		
Member Statement	2	2	100.0	75	180
Reporting on Budget Variances	4	4	100.0	Quarterly	-
Proposed Annual Budget	1	1	100.0	By March 31	-
Performance Measurement	4	4	100.0	Quarterly	-
Board Decision Affecting Individual Clients	0	n/a	n/a	1 Month	-
Newsletter (Pension Perspectives)	4	4	100.0	Quarterly	-
Total	**15**	**15**	**100.0**		

Table 1.14

* Standard is set within the contract between the Board and PEBA.
** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *Regulation, 1993*.

KEY performance indicators

The Plan measures its performance in areas that are critical for success in delivering the services that members expect from the Plan. The Plan measures these critical success factors in four categories:

Customer measures track the performance of key customer-related tasks and how well members tell the Plan it is doing in terms of the information and services it provides members;

Financial measures track the Plan's performance in the areas of administration costs and investment performance;

Internal measures track the Plan's performance in the areas of internal administration and governance processes; and

Innovation and Learning measures track the Board's performance of educational activities supporting its oversight of the Plan's administration and investment activities.

Establishing targets ensures that the Board is able to review the Plan's performance of key administrative tasks against a standard of practice, track any changes in performance over time, and be aware of the areas of strength and weakness in the Plan's administration.

The Board reviews these key performance indicators on a quarterly basis throughout the year. A review of the Plan's performance during the year ended March 31, 2014 is provided in the following pages.

Summary

The Plan has met the majority of its performance targets (67 per cent) in 2013-14. Service to members is a highlight of this report: member satisfaction with the service provided by the Plan and member satisfaction with the information provided by the Plan both met the target performance. Member satisfaction with information sessions is also a highlight.

Additionally, while the performance documented in the *Investment fund rate of return* is below the benchmark measure, a positive trend has become apparent during the year.

- At March 31, 2014, the one-year performance of 11 of the Plan's 13 investment funds (84.6 per cent) met their benchmarks; and
- All 12 of the funds that trail their four-year benchmarks are within one percentage point (100 basis points) of the benchmark performance – 7 funds being within 0.5 percentage points (50 basis points).

Overall, consistently high performance in several areas paints an overall picture of timely, efficient, and satisfactory service to Plan members within the Board-approved administration budget.

Customer

Critical success factor	Measure	Target	Result
Quality of service satisfaction	Member satisfaction with quality of customer service	More than 90 per cent of member survey responses indicate satisfaction with services	Met
Effective communication	Member satisfaction with quality of communication materials	More than 90 per cent of member survey responses indicate satisfaction with communications	Met
Member retention	Member satisfaction with information sessions	More than 80 per cent of member survey responses indicate satisfaction with information sessions	Met
Member retention	Member fund retention	More than 70 per cent of funds available for withdrawal are left in the Plan	Met
Provide service within service standard	Member transactions within service standards	More than 80 per cent of transactions meet the service standard	Met

Key performance indicators allow the Board to monitor the services delivered to Plan members and the tasks that are critical for the Plan's ongoing success.

Financial

Critical success factor	Measure	Target	Result
Returns greater than benchmarks	Investment fund rate of return compared to benchmark	All funds perform better than their respective benchmarks	Not met [1]
Performance to budget	Administration cost	Administration cost within budgeted amount	Met
Supplier management	Active investment manager investment return	Performance of all active investment managers exceeds four-year benchmarks	Not met [2]
Supplier management	Passive investment manager investment return	Performance of all passive investment managers exceeds four-year benchmarks	Met
Supplier management	Breakage as a percentage of total financial transactions	Fewer than one per cent of financial transactions incur breakage	Not met [3]

[1] Only one of the Plan's investment options – the Short-Term Bond Fund – met its performance benchmark during the year, as has been the case for the last three years. However, indications of a generally improving trend are apparent. At March 31, 2014, the one-year performance of 11 of the Plan's 13 funds (84.6 per cent) met their benchmarks, and seven of the funds trailing the four-year benchmark are doing so by fewer than 0.5 percentage points (50 basis points). The primary driver for the underperforming investment options is the significant underperformance of a number of equity managers, including several who were replaced in 2013-14. Because the more aggressive investment options have a higher exposure to the managers who were underperforming, the more aggressive investment options are further behind their benchmarks than the more conservative options.

[2] At March 31, 2014, five of the Plan's seven active investment managers who have four years of experience (71.4 per cent) added value in comparison to their four-year benchmarks, down from 83.3 per cent through the first three quarters of the year. This performance was consistently below the target of 100 per cent.

[3] Breakage is the financial impact of the Plan not meeting its service standard for a financial transaction. At March 31, 2014, of the 9,573 financial transactions the Plan processed during the year, 259 did not meet the service standards established by the Board. A number of significant unit valuation variances occurred between March and August of 2013, requiring that 178 member accounts be either increased or decreased to correct the errors. As a result of these errors, as well as 81 instances in which a transaction was processed late, 2.7 per cent of financial transactions during the year incurred breakage, well outside of the target performance. The Board monitored the Plan's performance in this area throughout the year, and oversaw the development of policies and procedures to reduce the likelihood of similar errors occurring in the future.

Internal

Critical success factor	Measure	Target	Result
Supplier management	Service provider performance is satisfactory	Performance of all service providers is satisfactory	Met
PEBA leadership	Satisfactory rating for Executive Management Services	Board's evaluation of its administrator shows 100 per cent satisfaction with the executive management services provided	Not met [4]
Governance	Compliance with Governance Self-Assessment and CAP Guidelines	Board demonstrates 100 per cent compliance with CAPSA governance and CAP guidelines	Met
Supplier management	Investment manager compliance reporting is 100 per cent annually	All required compliance reports are submitted	Met
Performance to budget	Actual expenditures on budgeted strategic initiatives compared to budget	Expenditures within budgeted amount	Met
Performance to schedule	Budgeted strategic initiatives are completed on schedule	All budgeted initiatives completed on schedule	Not met [5]

[4] The Board's evaluation of PEBA's provision of executive management services was largely positive, expressing the view that PEBA met the Board's expectations in 23 of 24 areas. However, the Board's average score for the question "To what degree did Executive Management engage the Board in discussions regarding succession planning for PEBA's executive management?" was 2.4, well below the "meets expectations" score of 3.0 of a possible 5, and was down from an average rating of 3.2 in 2012. As a result, the Plan did not meet its target in 2013-14.

[5] Six of seven budgeted strategic initiatives (85.7 per cent) are progressing toward completion on schedule. One budgeted strategic initiative, the enhancement to the Variable Pension Benefit member statements, was delayed by the vendor and is projected for completion in the fall of 2014.

Innovation and Learning

Critical success factor	Measure	Target	Result
Board leadership capacity	Board training budget expenditure	Board spends at least 50 per cent of education budget	Not met [6]
Board leadership capacity	Board training requirements	Board as a whole has completed at least 80 per cent of individual training requirements	Met

[6] The Board spent 43.9 per cent of its training budget during the year ended March 31, 2014, coming near to, but not meeting, the target expenditure of its training budget. As is reported on page 11, three Board members did not attend any educational events during the year, and one Board member's level of attainment in the new Board member orientation program has been unchanged since 2012.

Strategic goals

The strategic goals of the PEPP Strategic Business Plan for 2014-2015 include:

Service Delivery, Design & Communications

Plan members have access to pension services and information which meet their needs.

Plan Governance

The Board strives to be an industry leader in its pension plan governance practices.

Accountability

Performance of the Plan and Board's service providers is measured, managed, and reported.

Strategic initiatives

A. Service Delivery, Design and Communications

The Board is committed to ensuring that Plan members have access to pension services and information which meet their needs.

The Board is determined to maintain its position as an industry leader in the value-added services the Plan provides to its members.

The Board is continually exploring leading industry practices, but its primary benchmark in Plan design and service delivery is the satisfaction of Plan members. The Board's goal is to ensure that Plan design and service delivery meet Plan member needs.

This means providing members with risk-appropriate investment options to enable them to make the investment choice that is most appropriate to their circumstances. It also means providing members with the information needed to make that choice.

The best way the Board can know whether the options and services it provides are meeting member needs is to ask members. The Board is committed to facilitating two-way communication with members to gather their feedback.

The Board's goal is to provide options and services that give members every reason to remain in the Plan and that attract the attention of other public-sector employers and employees who will seek to join the Plan.

Activities Accomplished in 2013-2014

Define the Plan's role in the provision of financial advice to members. Conduct research regarding the provision of financial advice and develop a recommended service delivery model.

- The Plan continued its consultation with the Financial and Consumer Affairs Authority regarding assisting members with the decisions they must make as members of the Plan.

Update suite of investment products. Review the investment policy regarding alternative asset classes and asset allocation.

- The Plan continued its implementation of the Board's plan to enhance the Plan's investment options to improve member outcomes. The initiative is called *Get More*.
- The Plan continued implementation included the following:
  - Funding Global Equity mandates engaged in 2012-2013;
  - Engaging an investment manager to hedge foreign currency exposures within the Plan; and
  - Engaging investment managers to manage global small cap mandates for the Plan.

- The Plan communicated with Plan members regarding the ongoing enhancements to the Plan's investment options through quarterly articles in the Plan newsletter, *Pension Perspectives*.
- All communications related to this initiative are available on the Plan website for the reference of Plan members.

Assess feasibility of enhancing self-service by expanding online capabilities, research service delivery options, and decide on a course of action.

- The Plan implemented improvements to Retire@Ease to better serve retired members. These enhancements include improvements to enable Retire@Ease to calculate Variable Pension Benefit draw-down and provide draw-down guidance.
- The Plan took steps to improve the security of its online services.

Activities Planned for 2014–2015

Continue consultation regarding assisting members with the decisions they must make as members of the Plan.

- Continue consultation with the Financial and Consumer Affairs Authority regarding assisting members with the decisions they must make as members of the Plan.

Complete the implementation of the Board's plan to enhance the Plan's investment options to improve member outcomes.

- The implementation of the Board's plan to enhance the Plan's investment options is scheduled for completion in November 2014.

Continue to enhance self-service by expanding online capabilities and research delivery options.

- Complete enhancements underway to improve the security of the Plan's online resources.

Continue to improve products and services for retired members.

- Implement enhancements to the member statement provided to Variable Pension Benefit members.

The Board has adopted a comprehensive governance process that includes regular strategic planning and risk assessment.

The Board conducts annual reviews of its strategic business plan and continually seeks improvements to its governance program.

B. Plan Governance

Pension plan governance refers to the roles and responsibilities of the Board and its service providers in fulfilling the Boards fiduciary* obligations to Plan members and their beneficiaries. The Board strives to be an industry leader in its pension plan governance practices.

The Board recognizes that good governance is crucial to the long-term success of the Plan. Good governance requires appropriate control mechanisms that encourage good decision making, proper and timely execution, and regular review and assessment. The Board has invested considerable effort in developing its governance practices and policies, and will continue to seek ways of improving its governance program.

Several ongoing initiatives have been implemented in this area, including:

- annual self-assessment based on Canadian Association of Pension Supervisory Authorities Guidelines;
- annual self-assessment and periodic external assessment against the Guidelines for Capital Accumulation Plans and best practices;
- the creation of a Board Policy Manual with ongoing policy development; and
- periodic benchmarking of the Board's governance practices against the governance practices of other pension governing bodies through benchmarking surveys and audits.

The Board's primary objective in its pursuit of this goal is to improve its oversight of the Plan.

Activities Accomplished in 2013-2014

Examine consultant's report regarding potential administrative models for the Plan and formulate a position on the consultants' recommendation.

- The Board examined the report regarding potential administrative models for the Plan and engaged in consultation with the Ministry of Finance.
- The Board made the decision to defer further consideration of the report until 2014-2015.

Other activities accomplished in 2013-2014:

- The Board examined its governance practices and found that they compare favorably with industry best practices and peer practices. However, the Board noted several areas that could be improved, and it adopted a number of recommendations to optimize its governance program.

* A fiduciary relationship is a legal term for a special type of relationship under the law where one party is bound to act strictly in the best interest of the beneficiary. An example of a fiduciary relationship is the relationship between a doctor and a patient: a doctor is bound to act honestly, in good faith, and strictly in the best interest of the patient.

Activities Planned for 2014-2015

Examine the report regarding potential administrative models for the Plan and formulate a position on the consultants' recommendation.

C. Accountability

The Board measures, manages and reports on the performance of the Plan and its service providers.

The Board believes that good governance requires a strong focus on accountability, the basis of which is the establishment of measurable objectives, the monitoring of progress against these objectives, and the communication of the results to Plan stakeholders.

The Board has made considerable progress with respect to this goal, including:

- the establishment of service standards for the Plan administrator;
- the development and implementation of a strategic business plan; and
- annual Board member self assessment.

The Board has two primary objectives in its pursuit of this goal:

- The Board demonstrates that it governs the Plan responsibly.
- The Board demonstrates that it provides appropriate oversight of service providers.

Activities Accomplished in 2013-2014

Implement the remaining enhanced reporting measures and evaluate the efficacy of the enhanced reporting framework.

- The Plan implemented measurement of the remaining key performance indicators it had previously identified for inclusion in reporting.
- This Annual Report provides for the first time reporting of key performance indicators.

Activities Planned for 2014-2015

Explore further enhancements to the Annual Report.

Risk management

The Board believes that the broad-based risks are integrated with each other and with the processes of the Plan. Therefore, the Board has resolved to retain a balanced approach in the management of all four types of risks.

Within its mandate, the Board is responsible for managing risks that could affect the Plan's members, the operation of PEPP and other stakeholders.

Annually, the Board will conduct a risk-management review. This annual review is designed to identify potential events and trends that may positively or negatively affect the Board's ability to achieve its strategic goals or maintain its operations. These events and trends are defined as risks.

Risk: The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other stakeholders of the Plan or the attainment of strategic goals.

The risk-management process and review ensures that the Board, along with its administrator, identifies and evaluates risks, ensures appropriate strategies are in place to manage these risks and reviews the performance of the risk-management strategies for the previous year.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place for the management of the Plan's foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

The Board's Risk Management Philosophy Statement

The Board is committed to creating and maintaining value for the members of the Plan. The Plan faces risks as the Board fulfills this commitment. Therefore, the Board is responsible for managing all foreseeable risks that could affect the operation of the Plan and the Plan's stakeholders. Through its risk-management process, the Board identifies, measures, monitors and manages these risks in a manner that is consistent with the Board's governance model.

Key Risks

In order to assist in the identification and assessment of all foreseeable risks in the Plan, the Board has identified the following key broad-based risks to the Plan.

Broad-based Risks		Key Risks
Strategic Risk	Strategic Risk is the risk of failing to meet objectives. Strategic risk is further categorized into governance, reputation, plan design and communication considerations.	• Failure to meet plan members' or participating employers' needs. • Lack of member understanding of the role of the pension plan in the attainment of their retirement objectives.
Financial Risk	In order to meet the long-term needs of members and employers, sustainable pension products responsive to and valued by members, employers, unions and the sponsor must be maintained. This must be achieved in a way that considers the affordability and adequacy of the Plan's services.	• Investment of assets. • Excessive costs/expenses. • Fraudulent activities of service providers, the administrator or the Board.
Regulatory Risk	Regulatory risk is the risk of not meeting objectives due to non-compliance with legislation or regulation, or due to changes in legislation or regulations, or precedent-setting court decisions.	• Non-compliance with legislative and common-law requirements. • Failure to meet fiduciary obligations to Plan members and their beneficiaries or obligations to other stakeholders.
Operational Risk	Operational risk is the risk of failing to meet objectives due to inadequate or failed internal processes, human performance, or technology, or due to external events. Operational risks includes service-provider risk, which is the risk of failing to meet objectives due to the inability or unwillingness of a service provider to fulfill its obligations.	• Errors and omissions by administrative agent or professional advisors. • Service provider unable to carry on business. • Poor performance of service providers.

The Board is responsible for managing risks that could affect the Plan's members, the operation of PEPP and other stakeholders.

The Board has developed and implemented these strategies and ongoing business practices to manage the following risks:

- The Board implemented a Statement of Investment Policies and Goals (SIP&G) that outlines the Board's investment beliefs and provides for risk management through diversification of asset classes, capital markets and investment managers.

  The SIP&G defines the benchmark to which investment performance is measured. The Board annually reviews the SIP&G.

  The Board communicates investment performance.

  Independent monitoring is carried out by:

  - PEBA;
  - Mercer (Canada) Ltd.;
  - RBC Dexia Investor Services; and
  - custodians of pooled funds used by the Board.

- The Board ensures initiatives and Plan-related activities are adequately funded through its budgeting process.

- The Board receives a report comparing the administrative costs for public-sector pension plans, including other public-sector defined contribution pension plans, annually.

- The Board reviews the performance standards for the Board's administrator quarterly, investment consultant annually, investment managers quarterly, and custodian semi-annually.

- The Board annually evaluates the performance of the executive management services provided by its administrator.

- The Board requires that service providers confirm that they maintain disaster recovery plans and adhere to a code of conduct.

- There are two levels of audit:

  - The Board retains Deloitte LLP to conduct an audit of the Plan.
  - The Provincial Auditor reports to the Legislative Assembly regarding the audit of the Plan.

- The Board has an Acquisition and Retention of Services policy that details how the Board is to retain and evaluate service providers.

- The Board's administrator reviews and reports compliance with legislative requirements annually.

- The Periodic Checklist is a list of major items identified by the Board that are necessary for the administration of a pension plan. The checklist allows verification that an activity has been carried out. The completed Periodic Checklist is provided to the Board on a semi-annual basis.

- Board members are required to review and sign the Board's Code of Conduct and Conflict of Interest Procedures at least annually.
- The Board has outlined the education required to aid Board members in executing their fiduciary and governance duties.
- The Board formally reviews its Strategic Business Plan on a periodic basis.
- The Board regularly consults with legal counsel and outside advisors regarding issues on which it is deliberating.
- The Board retains service providers who are experts in the responsibilities to which they are assigned with respect to the Plan.
- PEBA staff provides retirement information seminars and individual information to Plan members.
- Information tools include member and employer seminars, employer bulletins and guides, written materials, and online resources such as the Plan website, PEPP *Access* and Retire@Ease.
- The Board consults with Plan members and participating employers on a regular basis to determine their needs.

Activities Accomplished in 2013-2014

Board oversight of the implementation of changes to the Plan's investment options

- The Board conducted an in-depth review of its investment policy throughout 2013-2014.
- Throughout the year, the Board monitored the progress of planned amendments to the Plan's investment options intended to improve member outcomes.

Periodic evaluation by the Board's administrator of the performance of the auditor, investment consultant and custodian

- The Board reviewed the performance of its auditor in September 2013. The Board reviewed the performance of its custodian in September 2013 and January 2014. The Board reviewed the performance of its investment consultant in March 2014. The evaluations found the performance of all service providers to be satisfactory.

Quarterly updates comparing actual expenditures versus budgeted amounts

- The Board received quarterly updates on its budget for the periods ending June, September, and December 2013, and March 2014.

Semi-annual completion of the Periodic Checklist

- PEBA provided the Board with the final Periodic Checklist for 2012-2013 in May 2013 and the interim Periodic Checklist for the first six months of 2013-2014 in November 2013.

Continued oversight of the audit program for PEBA's unit value processes in order to ensure that PEBA's processes are appropriate and may be relied upon

- In September 2013, the Board received a report by its auditor regarding PEBA's calculation of unit values. The report noted areas for improvement.
- PEBA put in place a plan to address the audit findings, and the Board monitored PEBA's progress through the year.

Other Activities Accomplished in 2013-2014

- The Board approved several amendments to the Plan's risk management plan based on a comprehensive assessment of the Plan's risks carried out in 2012.
- The Board approved a governance policy regarding risk management for the Plan.

Activities Planned for 2014-2015

- The Board will continue its oversight of the implementation of the changes it directed be made to the Plan's investment options.
- The Board will continue to periodically evaluate the performance of its auditor, investment consultant, and custodian.
- The Board will continue to evaluate the performance of PEBA's Executive Management annually.
- The Board will continue to receive quarterly updates comparing actual expenditures versus budgeted amounts.
- The completed Periodic Checklist will be provided to the Board on a semi-annual basis.
- The Board will continue to oversee the audit program for PEBA's unit value processes in order to ensure that PEBA's processes are appropriate and may be relied upon.

Public Employees Pension Plan
Plan Member

Management's report

To the Members of the Legislative Assembly of Saskatchewan

The Public Employees Pension Board is composed of four members appointed on behalf of participating employers, four members appointed on behalf of employees, and a Chairperson selected through a formal recruitment process. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow, have been prepared by management in conformity with Canadian Generally Accepted Accounting Principles (GAAP) and have been approved by the Board. Management uses internal controls and exercises its best judgment in order that the financial statements reflect fairly the financial position of the Plan.

The financial statements were examined by Deloitte LLP. Their report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
June 20, 2014

FINANCIAL statements (as at March 31, 2014)

Public Employees Pension Board

Public Employees Pension Plan

Deloitte.

Independent Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying financial statements of the Public Employees' Pension Plan, which comprise the statement of financial position as at March 31, 2014, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Public Employees' Pension Plan as at March 31, 2014, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Accountants
June 20, 2014
Regina, Saskatchewan

Public Employees Pension Plan
Statement of Financial Position

Statement 1

	(in thousands)	
	March 31 2014	**March 31 2013**
ASSETS		
Investments (Note 4)		
Short-term	$ 48,831	$ 28,244
Bonds and debentures	830,420	768,417
Equities	2,528,547	1,980,909
Pooled funds	2,728,292	2,407,534
Investments under securities lending program	206,901	276,762
	6,342,991	5,461,866
Receivables		
Contributions receivable – employee	1,004	1,776
Contributions receivable – employer	1,217	1,835
Accrued investment income	11,347	8,750
Other receivables	18,344	-
	31,912	12,361
Cash	84,442	113,811
Due from General Revenue Fund (Note 7)	6,556	4,931
Total assets	6,465,901	5,597,969
LIABILITIES		
Administrative expenses payable	4,905	3,678
Refunds, transfers and other payables	18,376	2,552
Total liabilities	23,281	6,230
NET ASSETS AVAILABLE FOR BENEFITS	$ 6,442,620	$ 5,591,739

(See accompanying notes to the financial statements)

Public Employees Pension Plan Statement of Changes in Net Assets Available for Benefits

Statement 2

For the Year Ended March 31	(in thousands) 2014	2013
INCREASE IN ASSETS		
Investment Income		
Interest	$ 28,859	$ 29,509
Pooled funds	104,174	73,552
Dividends	57,535	53,927
Other	1,112	887
	191,680	157,875
Change in fair value of investments	614,467	293,895
Contributions		
Employee contributions	143,107	116,961
Employer contributions	133,527	133,517
External transfers in	12,460	15,094
	289,094	265,572
Total increase in assets	1,095,241	717,342
DECREASE IN ASSETS		
Transfers, refunds and benefits (Note 6)	204,838	184,771
Transfers to Saskatchewan Pension Annuity Fund	12,018	10,359
Investment transaction costs	4,195	5,192
Administrative expenses (Note 8)	23,309	19,584
Total decrease in assets	244,360	219,906
Net increase in net assets	850,881	497,436
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	5,591,739	5,094,303
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 6,442,620	$ 5,591,739

Public Employees Pension Plan
Notes to the Financial Statements

March 31, 2014

1. Description of Plan

The following description of the Public Employees Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan text.

a) General

The Public Employees Pension Plan Act (the "Act") is the legislative authority for the Plan which is domiciled in Regina, Saskatchewan, and which is a defined contribution plan that covers the employees of a number of government entities. Effective September 1, 2002, the Plan also covers the Members of the Legislative Assembly.

The Act established the Plan to accumulate all contributions and earnings for plan members. The Plan consists of five asset allocation Funds: the Accelerated Growth Fund; the Growth Fund; the Balanced Fund; the Moderate Fund; the Conservative Fund; one Lifecycle Fund: the PEPP Steps Fund; and the Short-term Bond Fund.

All Funds receive and hold, in trust for members, contributions from the members and employers (collectively "Participants") and investment income derived from the Plan's investments.

All Funds hold varying percentages of bonds and debentures, equities, pooled funds, short-term investments and derivative financial instruments. The asset mix of each fund is established based on the expected volatility of the underlying securities and assets. The Accelerated Growth Fund is considered the most volatile and contains the highest percentage of equities relative to fixed income investments of all the funds. The Short-term Bond Fund is considered the least volatile.

Effective November 1, 2007, members of PEPP may choose either one of the five asset allocation funds or the PEPP Steps Fund. In addition, each member may also choose the Short-term Bond Fund.

The Plan uses a unitized method of plan participation whereby each member has a certain number of units of ownership in the net assets of the investment funds. Investment income including changes in the market value of the investments and expenses is reflected in the market value of the net asset value per unit of participation. The total available to a member upon termination or retirement is equal to the particular member's account balance at that date, subject to certain vesting and other specific rules governing the Plan.

The Plan introduced a Variable Pension Benefit option ("VPB") in May 2006 whereby retired members could elect to withdraw all or some of their pension funds either through lump-sum withdrawals or scheduled monthly payments. Members who participate in the VPB may choose to invest in any of the funds which are offered by the Plan.

b) **Administration**

The Act established the Public Employees Pension Board ("Pension Board") to administer the Plan. The Pension Board is comprised of nine members: four are appointed on behalf of participating employers, four on behalf of employees. The Board conducts an external recruitment process to choose a Chair, who is appointed for a three-year term. The Public Employees Benefits Agency ("PEBA") is under contract with the Board to provide day-to-day administration.

c) **Retirement**

Members may retire as early as age 50.

Upon retirement a member may choose to receive a VPB from the Plan or to purchase an annuity from the Saskatchewan Pension Annuity Fund ("SPAF") or from a private company that issues annuities.

Alternatively, the funds may be left in the Plan to continue to accumulate earnings to provide retirement income beginning no later than the end of the calendar year in which the member reaches age 71, be transferred to a Locked-in Retirement Account or, after age 50, to a Locked-in Retirement Income Fund, Life Income Fund or a Life Annuity from the SPAF or be transferred to another pension plan which has a reciprocal agreement with the Plan.

Members who elect to receive a VPB retain their account balances within the Plan. Those members who purchase their annuities from the Saskatchewan Pension Annuity Fund have their accumulated balance in the Plan at the date of retirement transferred to the SPAF.

A VPB is a periodic payment made from a registered plan to a member of that plan and which must conform to certain minimum payment requirements but not to any maximum payment requirements.

d) **Completeness of Contributions**

Participants are responsible for the accuracy and completeness of member contributions remitted to the Plan. Accordingly, these financial statements presume the accuracy and completeness of the Participants' contributions.

2. Basis of Preparation

a) **Statement of Compliance**

The financial statements for the year ended March 31, 2014 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the CPA Canada Handbook section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards ("IFRS") have been followed.

These financial statements were authorized and issued by the Pension Board on June 20, 2014.

b) **Functional and Presentation Currency**

These financial statements are presented in Canadian Dollars, which is the Plan's functional currency, and are rounded to the nearest thousand unless otherwise noted.

3. Significant Accounting Policies

The significant accounting policies are as follows:

a) **Investments**

Investments are stated at their fair value in the Statement of Financial Position. The change in the fair value of investments from the beginning to the end of each year is reflected in the Statement of Changes in Net Assets Available for Benefits.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Bonds and debentures are valued at year-end quoted bid prices in an active market when available. When quoted market prices are not available, the fair value is based on a valuation technique, being the present value of the principal and interest receivable discounted at the appropriate market interest rates.

Equities are valued at year-end quoted bid prices from accredited stock exchanges on which the security is principally traded.

Pooled fund investments are valued at the unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices. Real estate pooled-fund underlying assets are valued by third-party appraisals.

Investments in derivative financial instruments, including futures, repurchase agreements, forwards and option contracts, are valued at year-end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

b) **Other Assets and Financial Liabilities**

Accounts receivable are classified as loans and receivables and accounts payable are classified as other financial liabilities and are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

c) **Investment Income and Transaction Costs**

Investment income, which is recorded on the accrual basis, includes interest income, dividends, pooled-fund income, and other income.

Brokers' commissions and other transaction costs are recognized in the Statement of Changes in Net Assets Available for Benefits in the period incurred.

d) **Foreign Currency Translation**

The fair values of foreign currency denominated investments included in the Statement of Financial Position are translated into Canadian dollars at year-end rates of exchange. Gains and losses from translations are included in the change in fair value of investments.

Foreign currency-denomination transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in fair value of investments.

e) **Income Taxes**

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

f) **Use of Estimates and Judgments**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments. Actual results could differ from these estimates.

g) **Change in Accounting Policies**

The Plan has adopted the following new standard, along with any consequential amendments, effective April 1, 2013, or on such a date they became applicable. The adoption of this change did not result in any adjustments and had no significant impact on the financial statements:

IFRS 13 – Fair-Value Measurement

IFRS 13, issued in May 2011, redefines fair value to emphasize that it is a market-based measurement, not an entity-specific measurement. It also provides a single framework for measuring fair value and applies, with limited exceptions, when another standard permits or requires fair-value measurement. In addition, IFRS 13 requires specific disclosures about fair-value measurement.

h) **Future Accounting Policy Changes**

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended March 31, 2014, and have not been applied in preparing these financial statements. In particular, IFRS 9, Financial Instruments, for which the effective date of adoption, has not been determined. The extent of the impact of adoption of this standard is not known at this time, but is not expected to be significant.

4. Investments

The fair value of the Plan's investments is as follows:

	2014	2013
Short-term	$ 48,831	$ 28,244
Bonds and debentures	830,420	768,417
Equities	2,528,547	1,980,909
Pooled Funds	2,728,292	2,407,534
	$6,136,090	$ 5,185,104
Investments under securities lending:		
Equities	$ 108,101	$ 165,430
Bonds	98,800	111,332
	$ 206,901	$ 276,762
	$6,342,991	**$5,461,866**

Security Lending Program

Through its custodian, the Plan participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 105 per cent of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities Lending Program in note 9). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

Short-term Investments

Short-term investments are comprised of treasury bills, notes, commercial paper, repurchase agreements and a short-term investment fund. Short-term investments held at March 31, 2014 had effective rates of 0.90 per cent to 1.40 per cent (2013–1.00 per cent to 1.30 per cent), and an average remaining term to maturity of 47 days (2013 - 68 days).Also included in short-term investments are repurchase agreements and foreign exchange forward contracts (see note 5).

The Plan's investment policy states that investments must meet a minimum investment standard of "A2/P2" or equivalent rating by a recognized credit rating service.

Other than the Government of Canada, no single issue represents more than 7.88 per cent (2013 – 13.99 per cent) of the market value of the short-term investment portfolio.

Bonds and Debentures

2014 (in thousands)

Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$209,954	$ 51,653	$16,190	$313,974	$591,771	1.25% - 6.02%	2.73%
5 to 10	11,595	85,294	-	71,558	168,447	2.45% - 7.18%	3.30%
Over 10	23,204	89,752	1,884	54,162	169,002	0.00% - 8.29%	4.16%
Market Value	$244,753	$226,699	$18,074	$439,694	$929,220		

2013 (in thousands)

Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$224,224	$ 91,422	$5,882	$286,882	$608,410	0.00% - 5.95%	0.97%
5 to 10	27,604	43,469	7,806	38,782	117,661	2.65% - 11.00%	2.24%
Over 10	21,510	79,428	1,975	50,765	153,678	0.80% - 8.29%	3.31%
Market Value	$273,338	$214,319	$15,663	$376,429	$879,749		

Included in the above amounts of corporate bonds are foreign bonds, issued in Canadian currency, with a market value of $3.6 million (2013 - $4.0 million). Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. As at March 31, 2014, approximately $6.6 million (2013 - $6.6 million) in asset-backed securities is included in bonds.

Equities

The Plan's investment policy allows no one holding to represent more than 10 per cent of the market value of the related portfolio and no one holding to represent more than 10 per cent of the common stock in any corporation. As at March 31, 2014, the market value of the Plan's foreign equity investments in Canadian dollars amounted to $1,765 million (2013 - $1,471 million) and foreign equities represent 66.9 per cent (2013 – 68.6 per cent) of the market value of the directly-held equity portfolio.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risk. The average dividend rate is 2.41 per cent (2013 – 2.89 per cent).

Pooled Funds

The Plan's investment policy limits pooled-fund holdings to not more than 10 per cent of the market value of the individual pooled fund. Exceptions to the 10 per cent limit are allowed if provision has been made to transfer securities in kind when units of the pooled fund are sold.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2014	2013	2014	2013	2014	2013
Canadian. Equity						
TD Emerald Canadian Market Capped Pooled Fund Trust	227,601	187,643	44.11%	37.21%	$ 346,682	$ 266,304
US Equity						
TD Emerald pooled U.S. Fund	19,122	23,665	18.46%	18.60%	539,547	532,001
Global Equity						
Trent River Offshore Class R1	1	1	4.30%	6.01%	9,518	12,869
Fixed Income Fund						
TD Emerald Canadian Bond Pooled Fund Trust	124,942	102,519	25.82%	21.25%	1,336,721	1,124,733
Other						
TD Emerald Canadian Short-Term Investment Fund	17,124	8,063	11.51%	5.92%	169,884	176,076
Greystone Real Estate Fund	3,158	3,158	7.05%	7.60%	325,940	295,551
					$2,728,292	$2,407,534

The Trent River Offshore Fund at March 31, 2014 consists of $9.5 million (2013- $12.9 million) invested in market neutral hedge funds. The hedge funds used a variety of investment strategies.

The TD Emerald Canadian Market Capped Pooled Fund Trust may invest in equity index futures to replicate the return of the S&P/TSX Composite Index components.

The TD Emerald Pooled U.S. Fund may invest in equity index futures to replicate the return of the S&P 500 Composite Index components.

The TD Emerald Canadian Bond Pooled Fund Trust may not invest in any derivative investments.

The TD Emerald Canadian Short Term Investment Fund may use derivatives such as options, futures, forward contracts and swaps provided the reasons for use are consistent with the Fund's objectives and strategies.

Investments in real estate consist of Canadian commercial property held directly by the Greystone Real Estate Fund. The market appraisals used in valuing the real estate involves various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Fair Value

The Plan has classified its investments using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's financial instruments within a fair value hierarchy:

2014 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 922,646	$ 6,574	$ 929,220
Pooled funds	-	2,402,352	325,940	2,728,292
Short-term	48,831	-	-	48,831
Equities	2,636,648	-	-	2,636,648
Total	$ 2,685,479	$ 3,324,998	$ $332,514	$ 6,342,991

2014 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset - Backed	Total
Balance at April 1, 2013	$ 295,551	$ 6,574	$ 302,125
Net purchases and sales	-	-	-
Gains (losses)			
Realized	-	-	-
Unrealized	30,389	-	30,389
Balance at March 31, 2013	$ 325,940	$ 6,574	$ 332,514

2013 (in thousands)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$ 873,175	$ 6,574	$ 879,749
Pooled funds	-	2,111,983	295,551	2,407,534
Short-term	21,310	6,934	-	28,244
Equities	2,146,339	-	-	2,146,339
Total	$ 2,167,649	$ 2,992,092	$ 302,125	$ 5,461,866

2013 Fair Value measurement using level 3 inputs

	Real Estate Fund	Asset - Backed	Total
Balance at April 1, 2012	$ 287,385	$ 6,574	$ 293,959
Net purchases and sales	(25,000)	-	(25,000)
Gains (losses)			
Realized	6,541	-	6,541
Unrealized	26,625	-	26,625
Balance at March 31, 2013	$ 295,551	$ 6,574	$ 302,125

5. Derivatives

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates.

At March 31, 2014 the Plan held the following derivatives:

Future / Forward Contracts

The Plan has entered into foreign exchange forward contracts to hedge some of its foreign currency exposure in foreign equity pooled funds. Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a passive currency hedging strategy to manage the currency exposures inherent in the foreign equity exposure of the Plan, as well as provide protection of the Canadian value of the portfolio. The following summarizes the Plan's use of foreign currency forward exchange contracts within the passive currency hedging strategy:

FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS

(in thousands)

	2014		2013	
Currency	Notional Value	Gain (Loss)	Notional Value	Gain (Loss)
AUD	(12,942)	$ (244)	(1,700)	$ (105)
CHF	(59,829)	742	(36,611)	(21)
EUR	(143,708)	1,798	(83,400)	(371)
GBP	(75,477)	376	(45,600)	1,459
HKD	(18,990)	158	(490)	(4)
JPY	(41,544)	207	(21,000)	1,642
MXN	(2,304)	(17)	(1,570)	(301)
NOK	(5,418)	64	(2,650)	10
NZD	-	-	-	(22)
SEK	(5,675)	130	-	-
SGD	(11,893)	7	(5,150)	(90)
KRW	-	-	(570)	4
USD	(802,106)	6,357	(248,803)	2,599
		$9,578		$4,800

Based on the current rate of exchange as of March 31, 2014, the forward contracts are in a net gain position of $9.6 million (2013 – $4.8 million). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of March 31, 2014 have a maturity date of less than one year. This amount is included in short-term investments on the Statement of Financial Position.

Repurchase Agreements

A repurchase agreement, also known as a repo, is a contract entered into between two counterparties to sell securities together with an agreement for the seller to buy back the securities at a later date. At March 31, 2014, the Plan has entered into repurchase agreements with a notional value of $95.9 million (2013 - $95.4 million) and a fair value of $0.27 million (2013 - $2.1 million). This amount is included in short-term investments on the Statement of Financial Position. The repurchase agreements have a term to maturity of less than one year. The amount held for collateral is $9.8 million.

Repurchase agreements require a fraction of their market value to be available as collateral to back the market exposure provided. PEPP has invested $9.8 million in physical bonds which serve as a backing asset for the repurchase agreements with TD Asset Management. The $95.9 million investment in the TD Emerald Canadian Short-term Investment Fund is available as additional margin. No specific collateral is pledged for the repurchase agreement exposure as the investment is not leveraged. Collateral may be pledged to the Plan if the market value of the repurchase agreements changes significantly.

6. Transfers, Refunds and Benefits

	(in thousands)	
	2014	**2013**
Termination refunds	$ 5,012	$ 606
Death and lump sum benefits	6,244	6,862
Variable pension benefits	47,724	47,283
Marital transfers	2,541	2,877
Transfers to registered retirement savings plans and to private companies providing annuities	137,909	123,348
Transfers out	5,408	3,795
	$204,838	$184,771

7. Due from General Revenue Fund

The Plan's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Plan's bank accounts using the Government's 30 day borrowing rate and the Plan's average bank account balance. The Government's average 30 day borrowing rate in 2014 was 1.02 per cent (2013 – 1.09 per cent).

8. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands)

	2014		2013	
	Budget (unaudited)	**Actual**	**Budget** (unaudited)	**Actual**
Audit fees	$188	$67	$85	$122
Administration costs	7,242	6,623	7,636	6,072
Custodial fees	570	492	728	674
Investment manager fees	14,591	16,127	14,408	12,716
Total	$22,591	$23,309	$22,857	$19,584

9. Financial Risk Management

The nature of the Plan's operations results in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Pension Board. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. The Pension Board reviews and reports on regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Pension Board also reviews and reports on regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at March 31, 2014 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands) 2014	2013
Cash	$ 84,442	$ 118,811
Accounts receivable	31,912	12,361
Fixed income investments[1]	2,484,656	2,208,802
Due from the General Revenue Fund	6,556	4,931
Equities under security lending	108,101	165,430

1 Includes short-term investments, bonds, bonds under security lending, bonds and short-term notes held through pooled funds, and derivatives

Accounts receivable are primarily made up of employee and employer contributions receivable and accrued investment income. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is primarily related to short-term investments, bonds and debentures, and the fixed income pooled funds. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is A2/P2) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds and debentures are as follows:

	(In thousands) 2014		2013	
Credit Rating	**Fair Value**	**Makeup of Portfolio (%)**	**Fair Value**	**Makeup of Portfolio (%)**
AAA	$ 330,309	35.56	$ 313,543	35.64
AA	302,398	32.54	116,147	13.20
A	207,344	22.31	389,064	44.22
BBB	88,520	9.52	60,344	6.86
Unrated	649	0.07	651	0.07
Total	$ 929,220	100.00	$ 879,749	99.99

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 4.52 per cent (2013 – 4.17 per cent) of the market value of the combined portfolio. No one holding of a province is over 3.02 per cent (2013 – 1.96 per cent) of the market value of the bond and debentures portfolio.

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The currency manager must receive approval from the Board prior to engaging a new counterparty.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including bonds, debentures and the fixed income pooled funds. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits by $150.3 million at March 31, 2014 (2013 - $123.7 million); representing 6.4 per cent of the $2,362 million fair value of fixed income investments. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits by $150.3 million at March 31, 2014 (2013 - $123.7 million); representing 6.4 per cent of the $2,362 million fair value of fixed income investments.

Foreign exchange

The Plan is subject to changes in the U.S./Canadian dollar exchange rate for U.S. denominated investments. Also, the Plan is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in global equity funds. At March 31, 2014, the Plan's exposure to U.S. equities was 13.22 per cent (2013 – 19.03 per cent) and its exposure to non-North American equities was 22.15 per cent (2013 – 16.94 per cent).

At March 31, 2014, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $86.4 million change in net assets available for benefits. A 10 per cent change in the Canadian dollar versus the non-North American currencies would result in approximately a $144.7 million change in the net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services are not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as described in Note 5. As at March 31, 2014, the Plan's foreign exchange exposure net of derivatives is $1,155 million. A 10 per cent change in the exchange rate would equate to a net change of $116 million.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities, including equities invested in pooled funds, comprise 54.08 per cent (2013 – 52.95 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10 per cent of the market value of the Plan.

The following table indicates the approximate change that could be anticipated to the net assets available for benefits based on changes in the Plan's benchmark indices March 31, 2014:

	(Change in thousands of $)	
	10% increase	10% decrease
S&P/TSX Composite Index	$122,241	$(122,241)
S&P 500 Index	86,364	(86,364)
MSCI EAFE Index	144,677	(144,677)

Securities Lending Program

At March 31, 2014, no Plan assets have been deposited or pledged as collateral as part of the securities lending strategy. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At March 31, 2014, the total amount of collateral pledged to the Plan amounted to $217.2 million (2013 - $290.6 million). Security lending obtains collateral of at least 105 per cent of the market value of the securities lent. Such loans must be secured by readily marketable government bonds, treasury bills and /or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The Plan invests in repurchase agreements in order to increase Plan liquidity while maintaining fixed income exposure. Repurchase agreements provide $95.9 million in fixed income exposure with a margin of $10 million in physical bond investments which take three days to liquidate, but also $95.9 million invested in money market investments which can be liquidated for cash in a single day.

10. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Plan is related to non-crown enterprises that the Government jointly owns or significantly influences. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $12.5 million (2013 - $14.4 million) Province of Saskatchewan Bonds and Debentures with a yield of 3.69 per cent (2013 – 4.14 per cent). Investment income including change in market value of $1.1 million (2013 - $0.5 million) was recorded from the Province of Saskatchewan Bonds and Debentures.

The Plan has an accounts payable balance as at March 31, 2014 of $0.8 million (2013 - $0.6 million) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

11. Capital Management

The Plan receives new capital from Participant contributions. The Plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of asset classes including equities, bonds and debentures, pooled funds, and short-term investments. The Pension Board has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

12. Fair Value of Financial Assets and Liabilities

For the following financial assets and liabilities the carrying amount approximates fair value due to their immediate or short-term maturity:

a) contributions receivable
b) accrued investment income
c) due from General Revenue Fund
d) administrative expenses payable
e) refunds, transfers and other payables

The fair value of investments is disclosed in note 4.

13. Value and Performance of Members' Accounts

In accordance with Canadian accounting standards for pension plans, various accruals are included in the Statement of Financial Position. However, only transactions that were processed and unitized during the fiscal year ending March 31, 2014 are reflected in the unitized account balances of members at year-end. The total value of members' unitized accounts at March 31, 2014 was $6,424 million (2013 – $ 5,575 million).

Investment income including changes in the market value of the investments (investment performance) and expenses is reflected in the market value of the net asset value per unit of participation and is determined daily. Investment and administration expenses relating to each Fund are accrued to or paid from the Fund prior to establishing its daily unit price. The Funds' unit price will increase or decrease according to the Funds' investment performance after expenses.

Fund transactions are processed using forward pricing. This means they are processed at the next unit price set after the Plan receives contributions or requests for transfers, refunds and benefits.

Fund transactions may be suspended temporarily at management's discretion where an accurate unit price for a Fund cannot be determined due to the unavailability of reliable market pricing or other asset valuations.

On November 1, 2007, the Plan introduced a new fund structure whereby members may choose either one of the five asset allocation Funds or the PEPP Steps Fund. In addition, each member may also choose the Short-term Bond Fund. The PEPP Steps Fund is comprised of 12 separate Funds, five of which are the asset allocation Funds. In all, there are 13 separate Funds.

The following table shows some selected data for each of the Funds:

	2014			
	Units	Net asset value per unit	Total net assets (000's)	Return %
PEPP Step 1 (Accelerated Growth Fund)	1,987,640	127.0089	$ 252,448	19.8%
PEPP Step 2	422,533	130.3913	55,095	18.4%
PEPP Step 3 (Growth Fund)	2,277,837	130.9774	298,345	17.2%
PEPP Step 4	358,301	131.9734	47,286	16.2%
PEPP Step 5 (Balanced Fund)	29,306,695	161.8508	4,743,311	14.9%
PEPP Step 6	648,714	135.0150	87,586	13.7%
PEPP Step 7	677,193	136.3298	92,322	12.4%
PEPP Step 8 (Moderate Fund)	1,937,742	136.2498	264,017	11.5%
PEPP Step 9	249,256	136.2670	33,965	10.3%
PEPP Step 10	38,884	137.1958	5,335	9.2%
PEPP Step 11	1	133.4300	-	7.9%
PEPP Step 12 (Conservative Fund)	1,504,159	135.2993	203,512	7.0%
Short-term Bond Fund	2,444,831	139.2455	340,432	2.0%
Total Unitized Net Assets			$ 6,423,654	

	2013			
	Units	Net asset value per unit	Total net assets (000's)	Return %
PEPP Step 1 (Accelerated Growth Fund)	1,745,111	106.0617	$ 185,089	9.8%
PEPP Step 2	328,939	110.1277	36,225	9.4%
PEPP Step 3 (Growth Fund)	2,101,505	111.7171	234,774	9.3%
PEPP Step 4	293,477	113.5396	33,321	9.0%
PEPP Step 5 (Balanced Fund)	29,296,460	140.8352	4,125,972	8.9%
PEPP Step 6	578,735	118.6951	68,693	8.4%
PEPP Step 7	613,313	121.2615	74,371	8.1%
PEPP Step 8 (Moderate Fund)	1,659,746	122.1649	202,763	7.8%
PEPP Step 9	191,065	123.5646	23,609	7.5%
PEPP Step 10	18,446	125.6392	2,318	6.9%
PEPP Step 11	1	123.6400	-	6.5%
PEPP Step 12 (Conservative Fund)	1,547,063	126.3923	195,537	6.2%
Short-term Bond Fund	2,875,629	135.5288	392,606	2.7%
Total Unitized Net Assets			$ 5,575,278	